

Executive Summary of Project for BIP and BTOP:
8. Infrastructure Projects Executive Summary

The Opportunity

The island of Hawaii, the Big Island, is the largest of the eight main islands which comprise the entire State. As of June 2009, the Big Island had the highest unemployment rate in the State at 11.5%, experienced the steepest year-over-year loss of jobs at 5.5% (1st Q 09) with a median household income \$6,800 below the state average. The less affluent rural communities on the Big Island's east side lack adequate access to affordable, reliable and fast broadband services, putting these communities at a social and economic disadvantage. The Big Island, with the second largest population of the islands, continues to face slower economic growth, hampered job creation, poorer response times and delivery of services.

This proposal will bring High Speed Internet (HSI) service to underserved rural communities on the east side of the Big Island, create jobs, and improve economic and educational opportunities. The targeted underserved areas are large, low density, rural subdivisions with little or no basic infrastructure such as paved roads, public water/sewer systems and, electricity. For example, Hawaiian Acres, built in 1958, covers 12,191 acres yet only 10 of the 72 miles of road are paved and maintained by the local community association. Census data indicates few households occupy the 4,008 lots, making infrastructure investments very expensive. The target areas have a long history of being isolated with little or no road access due to lava flows, floods, volcanic gases, and storms. Reliable broadband service may be the only lifeline these customers have in times of crisis. Stimulus funding will help achieve President Obama's commitment to bring educational and economic benefits of the Internet to all communities, no matter the location. This project will also improve access to broadband and provide wireless companies access to fiber mobile backhaul services, who can then provide higher speed broadband coverage.

On the Big Island, this project provides the added benefit of a middle mile segment from [REDACTED], connecting Hawaiian Telecom's central offices of [REDACTED]. The [REDACTED] central offices can either be added [REDACTED] to include these and other offices, benefiting the whole island. These improvements will support last mile households and businesses with broadband traffic [REDACTED]. Increased network reliability benefits all users with redundancy, increased security and speed and is of special value to public safety, health care, schools and other community anchor institutions.

Proposed Funded Service Areas

Hawaiian Telcom, Inc., (HTI) with its parent company and affiliates (collectively, "HT"), proposes to serve: Pepeekeo Point, Hawaiian Paradise Park Makai, Hawaiian Acres, Fern Forest and Royal Hawaiian Estates in East Hawaii.

of Households and Businesses

This project passes [REDACTED] 'underserved' households and [REDACTED] businesses in the 'last mile' based on the 2000 Census.

of Community Anchor Institutions, Public Safety Entities and Critical Community Organizations Passed/Involved

This project will pass seven community anchor institutions including educational institutions, a public safety entity, and government agencies, including the County of Hawaii. By completing a fiber link around the entire Big Island, this project will also improve the reliability of broadband services for all Big Island customers including residents, community anchor institutions, public safety entities and critical community organizations.

Services & Applications

This project provides the proposed beneficiaries HT's current HSI service of up to [REDACTED] (actual speed depends on customer location.) Wireless carriers will have greater access to mobile backhaul service for their 3G & 4G networks. HT's up to [REDACTED] broadband plans for residential customers will be more affordable than the current offerings in terms of monthly recurring charges and price per megabit of downstream bandwidth. The network will be scalable to offer higher HSI bandwidths and new IP services (e.g. VoIP) in the future.

Non-Discrimination and Interconnection Obligations

HT is committed to strict adherence to all applicable non-discrimination and interconnection requirements throughout the lifetime of all funded deployments. HT will comply with the FCC's Internet Policy Statement and maintain a fully open non-discriminatory Internet access network. HT will offer interconnection, where technically feasible, on a wholesale basis at reasonable rates and terms to be negotiated in good faith.

Broadband System

HT's extensive communications network provides advance broadband services to customers and is based on a robust, statewide Multi-Protocol Label Switching core. HT will leverage this existing network to expand xDSL HSI service to underserved areas with a fiber-to-the-node design. Existing access networks will be augmented to support new xDSL services in the last mile areas (Royal Hawaiian Estates, Pepeekeo Point, Fern Forest, Hawaiian Acres, and Hawaiian Paradise Park Makai). To ensure resiliency and bandwidth availability in the backbone, middle mile improvements will be made throughout the contiguous central offices from [REDACTED] [REDACTED]. The designs will extend fiber from central offices or nearest fiber access points to the identified underserved areas where remote xDSL equipment will be placed at key cross connect points, creating a scalable network to meet customer needs and deliver advertised speeds; high reliability and resiliency both from a network and services point of view. This cost effective design leverages our existing networks. With the fiber backbone, investments to scale capacity to meet future bandwidth needs and population growth will be similar to our urban areas.

Applicant's Qualifications

HT is a full service provider of voice, data, transport, enhanced calling features, network access, directory assistance, private lines, HSI, long distance services, CPE, data solutions, and pay telephone services. HT has served the telecommunications needs of Hawaii for 125 years. HT has constructed and operates the most state-of-the-art carrier class network in the state with extensive networks on Oahu, Kauai, Maui, Molokai, Lanai, and Hawaii, which includes a 7/24/365 Network Operations Center that monitors networks, and takes preemptive action to ensure reliable service to 498,253 local access lines, 246,739 long distance lines and 95,176 HSI connections. HT operates 86 central offices serving approximately 6,263 square miles and a combined population of 1,288,198 in 2008.

HTI, Debtor-in-Possession is the funding entity and will be responsible for constructing the infrastructure improvements while Hawaiian Telcom Service Company will be responsible for the marketing and sales of broadband services. HT filed a voluntary petition in Bankruptcy Case No. 08-02005 (Jointly Administered) in the U.S. Bankruptcy Ct. for the District of Hawaii for relief under Chapter 11 of the U.S. bankruptcy code on December 1, 2008. On June 3, 2009, HT filed a plan of reorganization with the court to cancel over \$800 million of debt, some of which will become company equity. The planned success in executing the reorganization plan and garnering approval from the Hawaii Public Utilities Commission (HPUC), will result in a significant reduction of obligations and a deleveraged capital structure, which will enable HT to execute a business plan with network expansion, delivery of new products and system improvements. The plan provides for a transfer of control of HT post-bankruptcy to certain creditors that will have been approved by the court. HT's operations and communications assets will remain substantially unchanged. The bankruptcy will have no affect on HT's grant obligations as awards will be made after the filing date, December 1, 2008. HTI will continue to be obligated to fulfill the terms and obligations of any stimulus grant and requests that the awarding agency approve the transfer of control at any future award date, subject to reporting and/or permission requirements.

Cost

The cost of the proposed broadband infrastructure project is \$7,876,146. HT is seeking 80% grant funding and will provide 20% matching funding of \$1,575,230 from internal sources. HT submits this application to both BIP and BTOP. Present financial circumstances related to the reorganization of HT, the state of the Big Island's economy and the rigorous cost discipline imposed by the reorganization make it impossible for the company to assume more debt or commit more than 20% equity. We respectfully ask that RUS waive the 50% loan/match requirement for non-remote rural projects or that BTOP be allowed to consider and fund this worthy project. HT's request for an 80% grant from the Federal Government with a 20% match from HT as opposed to a loan or loan/grant combination is also based on prior HPUC decisions. In the decision on the sale of HT's Directory Publishing Business in 2007, the HPUC directed HT to submit a Debt Reduction Plan with a targeted debt to equity ratio of 65% debt and 35% equity. A condition of the sale was the net proceeds be used to repay debt.

Subscriber Projections

We expect to have approximately [REDACTED] new subscribers by 2014.

Number of Jobs

An estimated [REDACTED] FTEs for 24 months are expected to be created by this project. Other jobs will be created relating to the purchasing of supplies, equipment and auditing. This project would be welcome news in a state with an estimated \$786 million budget deficit through June 2011.